

Message Text

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FM AMEMBASSY MADRID

TO USDEL SECRETARY LONDON NIACT IMMEDIATE

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C O N F I D E N T I A L SECTION 1 OF 2 MADRID 3642

E.O. 11652: GDS

TAGS: PFOR, MARR, ECON, SP

SUBJ: MAY 12 MEETING OF US-SPANISH COUNCIL -- TALKING POINTS

ON BILATERAL ECONOMIC ISSUES

REF: MADRID 3632

1. FOLLOWING ARE TALKING POINTS ON US-SPANISH BILATERAL ECONOMIC ISSUES FOR USE BY THE SECRETARY IN MADRID.

2. THE U.S. AND SPAIN HAVE A MUTUALLY BENEFICIAL TRADE RELATIONSHIP. U.S. EXPORTS TO SPAIN DURING 1976 TOTALED \$2.5 BILLION WHILE IMPORTS FROM SPAIN WERE \$890 MILLION. SPAIN IS CONCERNED OVER ITS LARGE TRADE DEFICIT WITH THE U.S. (\$1.6 BILLION IN 1976) WHICH IS PART OF A GLOBAL TRADE DEFICIT OF NEARLY \$9 BILLION AND A CURRENT ACCOUNT BALANCE OF PAYMENTS DEFICIT OF \$4.6 BILLION, BUT IS HAVING TO DRAW ON THEM (NEARLY \$1 BILLION LAST YEAR) AND INCREASE ITS FOREIGN INDEBTEDNESS TO COVER ITS DEFICIT. THUS FAR, SPAIN HAS OPTED FOR EXPORT PROMOTION RATHER THAN IMPORT RESTRICTION IN AN ATTEMPT TO REDUCE ITS LARGE TRADE DEFICIT. IT IS THEREFORE HIGHLY SENSITIVE TO ANY RESTRICTIONS WHICH THE U.S. HAS OR MAY PLACE ON IMPORTS OF SPANISH PRODUCTS, PARTICULARLY WHEN IT BELIEVES THAT ITS TREATY RELATIONSHIP WITH THE U.S. SHOULD INDICATE SPECIAL SYMPATHETIC TREATMENT.

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BILATERAL ECONOMIC ISSUES

1. ESCAPE CLAUSE

ESCAPE CLAUSE CASES INVOLVING SPAIN HAVE BEEN FEW.

UNDER THE ESCAPE CLAUSE PROVISIONS OF OUR 1974 TRADE ACT, WE

HAVE PLACED QUOTAS ON IMPORTS OF SPECIALTY STEELS, WHILE IN THE SHOE CASE THE PRESIDENT DECIDED (CONTRARY TO THE ITC DECISION) NOT TO IMPOSE QUOTAS PROVIDED ORDERLY MARKETING ARRANGEMENTS CAN BE NEGOTIATED WITH KOREA AND TAIWAN.

TALKING POINTS

-- THE U.S. IS COMMITTED TO THE EXPANSION OF WORLD TRADE AND TO THE REDUCTION OF TRADE RESTRICTIONS IN MULTILATERAL TRADE NEGOTIATIONS. IT MUST AT THE SAME TIME PROTECT ITS OWN INDUSTRY AND WORKERS IF THEY ARE INJURED BY IMPORTS.

-- WE HAVE IMPOSED QUOTAS ON IMPORTS OF SPECIALTY STEEL WHICH PLACES SPAIN IN A BASKET OF COUNTRIES WHICH ARE NOT MAJOR EXPORTERS. HOWEVER, WE ARE NOW REVIEWING THE QUOTA SYSTEM ON SPECIALTY STEEL. IF IT CONTINUES, WE HAVE AGREED TO CONSIDER A SEPARATE QUOTA FOR SPANISH STAINLESS STEEL BARS.

-- WE ARE AWARE OF THE IMPORTANCE TO SPAIN OF ITS SHOE EXPORTS TO THE U.S. THE PRESIDENT'S DECISION NOT TO IMPOSE QUOTAS ON SHOE IMPORTS IS AN ILLUSTRATION OF THE ADMINISTRATION'S COMMITMENT TO OPEN TRADING. THERE ARE STILL PRESSURES FROM INJURED U.S. INDUSTRY, HOWEVER, AND OUR ABILITY TO AVOID QUOTAS IS DEPENDENT ON ARRIVING AT ORDERLY MARKETING ARRANGEMENTS WITH KOREA AND TAIWAN AND THE GROWTH IN IMPORTS FROM OTHER MAJOR SUPPLIERS LIKE SPAIN.

2. COUNTERVAILING DUTY

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THE COUNTERVAILING DUTY LAW, RECONFIRMED BY THE TRADE ACT OF 1974, ALLOWS AMERICAN FIRMS TO SEEK COMPENSATING DUTIES TO OFFSET "BOUNTIES OR GRANTS" PAID BY FOREIGN GOVERNMENTS ON EXPORTS. THE MAIN TARGET IN SPAIN FOR COUNTERVAILING ACTIONS HAS BEEN THE GOS PRACTICE OF REBATING TAXES PAID ON GOODS EXPORTED (DESGRAVACION FISCAL). SPAIN MAINTAINS THIS IS THE SAME AS THE REBATE OF VALUE ADDED TAXES ON EXPORTS FROM THE EC COUNTRIES, A PRACTICE NOT COUNTERVAILED BY THE US. THE US TREASURY HOLDS THAT "DESGRAVACION FISCAL" REBATES AN AMOUNT IN EXCESS OF TAXES PAID WHICH IS COUNTERAVAILABLE. USING THIS CRITERIA, TREASURY HAS IMPOSED COUNTERVAILING DUTIES ON SPANISH SHOES, BOTTLED OLIVES, ZINC, AND VITIMIN K AND IS NOW INVESTIGATING A PETITION INVOLVING CHAINS. SHOES, BOTTLED OLIVES AND ZINC TOGETHER ACCOUNTED FOR A THIRD OF SPAIN'S EXPORTS TO THE US IN 1976.

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TALKING POINTS

-- THE US TREASURY HAS LITTLE FLEXIBILITY IN
ADMINISTERING THE COUNTERVAILING DUTY LAW AND MUST INVESTIGATE
VALID PETITIONS PRESENTED BY AMERICAN COMPANIES.

-- TREASURY NEEDS GOS COOPERATION IN THESE
INVESTIGATIONS SINCE WITHOUT IT, TREASURY MUST MAKE ITS
DETERMINATION BASED ONLY ON INFORMATION PRESENTED BY THE
PETITIONER. COOPERATION BY SPANISH INDUSTRY IS ALSO HELPFUL,
BUT ANY EVIDENCE IT PRESENTS MUST BE CORRBORATED BY THE GOS.

-- LOOKING AHEAD, THE US HOPES TO SETTLE THE QUESTION
OF ACCEPTABLE TRADE PRACTICES IN THE MULTILATERAL TRADE
NEGOTIATIONS FORUM.

3. CREDITS TO SPAIN

THERE IS ALWAYS THE POSSIBILITY THE SPANISH MAY
MENTIQN THE POSSIBILITY OF U.S. SUPPORT FOR FINANCIAL
ASSISTANCE TO HELP SPAIN WITH ITS BALANCE OF PAYMENTS
PROBLEMS.

TALKING POINTS

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-- ANY ECONOMIC ASSISTANCE TO SPAIN, SHOULD IT

BE NECESSARY, WOULD LIKELY BE A MULTILATERAL EFFORT DEPENDING PRIMARILY ON RESOURCES OF INTERNATIONAL FINANCIAL INSTITUTIONS AND PRIVATE BANKS, AND GEARED TO A WELL-CONCEIVED STABILIZATION PLAN. SPAIN WOULD DO WELL TO UNDERTAKE EARLY CONSULTATIONS WITH THE IMF TO DEVELOP SUCH A PLAN.

4. NUCLEAR ENERGY

SPAIN WILL HAVE CLOSE TO TWENTY NUCLEAR REACTORS IN OPERATION BY 1987 SUPPLYING 50 PERCENT OF ITS ELECTRICITY NEEDS. THREE ARE ALREADY ON STREAM AND SEVEN ARE UNDER CONSTRUCTION. TO FUEL THESE REACTORS IT HAS CONTRACTED ENRICHED URANIUM THROUGH 1983. HOWEVER, BEYOND THAT DATE SPAIN, LIKE ALL OTHER EUROPEAN COUNTRIES RELYING HEAVILY ON NUCLEAR ENERGY, FORESEES A SEVERE SHORTAGE OF URANIUM AS WELL AS A DIFFICULT PROBLEM OF STORING THE HIGHLY CONTAMINATING SPENT ENRICHED FUEL COMING OUT OF THE REACTORS. THE LOGICAL SOLUTION IS THE PLUTONIUM FIRED, FAST-BREEDER REACTOR WHICH INFINITELY EXTENDS THE LIFE OF AVAILABLE URANIUM RESOURCES AND GREATLY REDUCES THE CONTAMINATION OF THE ULTIMATE WASTES FROM THE NUCLEAR FUEL CYCLE.

WE ARE CONCERNED THAT THE PLUTONIUM COULD BE USED TO BUILD NUCLEAR WEAPONS AND ARE SUGGESTING ALTERNATIVE METHODS TO EXTEND URANIUM RESOURCES AND LESSEN THE WASTE DISPOSAL PROBLEM. THE DIFFICULTY IS THAT NONE OF THE ALTERNATIVES HAVE BEEN FULLY DEVELOPED AND TO OPT FOR THEM MEANS FURTHER DELAYS IN NUCLEAR ENERGY PLAYING A MAJOR ROLE IN SOLVING THE "ENERGY CRISIS."

TALKING POINTS

-- THE US IS CONCERNED ABOUT THE SPREAD OF THE
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TECHNOLOGY AND MATERIALS FOR MAKING NUCLEAR WEAPONS. WE ARE PARTICULARLY WORRIED ABOUT PLANS TO INCREASE THE AVAILABILITY OF PLUTONIUM WHICH COULD BE READILY TURNED TO WEAPONS PRODUCTION.

-- THE US IS ALSO CONCERNED ABOUT THE ENERGY CRISIS AND FULLY UNDERSTANDS THE VITAL ROLE NUCLEAR ENERGY CAN PLAY IN ALLEVIATING THE PROBLEM, ESPECIALLY IN COUNTRIES SUCH AS SPAIN THAT DO NOT HAVE ADEQUATE SUPPLIES OF OTHER ENERGY RESOURCES AND ARE FORCED TO RELY HEAVILY ON EXPENSIVE IMPORTS.

-- THE US SEEKS AN ARRANGEMENT WITH THE OTHER NUCLEAR

ENERGY COUNTRIES WHICH WILL ALLOW AN INCREASING ROLE FOR
NUCLEAR ENERGY IN THE WORLD'S ENERGY SUPPLY WHILE PROVIDING
ADEQUATE SAFEGUARDS AGAINST FURTHER SPREAD OF NUCLEAR
WEAPONS. WE SEEK SPAIN'S COOPERATION IN THIS UNDERTAKING
AND WILL BE CONSULTING SOON IN THIS REGARD. STABLER

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